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April 24, 1997

HAND DELIVERY

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation
CC Dkt. No. 96-45

Dear Mr Caton:

This letter is to notify you that Ronald Plessner and I had a telephone conversation today with Mindy Ginsburg of the Commission's Common Carrier Bureau. During the meeting, we discussed Commercial Internet eXchange's position on USF funding for "advanced services" to schools and libraries. The attached one-page position paper, which had been previously sent to Ms. Ginsburg in accordance with the ex parte rules, summarizes CIX's position on that issue. In addition, we conveyed CIX's view that subsidizing telecommunications services and keeping the ISP services free from subsidy would likely avoid serious risk of litigation, and provide schools and libraries with practical funding.

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An original and one copy of this letter is transmitted herewith. Should you have any questions concerning this matter, please feel free to contact the undersigned.

Sincerely,



Mark J. O'Connor

cc: Mindy Ginsburg

Enclosure

CIX POSITION ON USF REFORM

"Advanced Service" Subsidies To Schools and Libraries Must Be Competitively Neutral

Section 254(h)(2) of the Act requires the Commission to adopt rules for "advanced services" subsidies to schools and libraries that are "*competitively neutral*." Subsidies that go for Internet access services of carrier-based ISPs only, and that exclude non-carrier based ISPs, are not competitively neutral. Instead, a carrier-based ISP subsidy would exclude the vast majority of the over 3,000 U.S. Internet access providers, and would result in significant competitive favoritism for carrier-based ISPs.

Given the current controversy over direct subsidies to enhanced service providers that do not pay into the USF, CIX believes the most appropriate implementation of Section 254(h) is to provide explicit subsidies for the underlying *telecommunications services* (e.g., T1 lines, ISDN PRI service) that facilitate the offering of Internet access services. The Internet access service of the telecommunications carrier (or any other information service), however, should not be subsidized. To maintain "competitive neutrality," the Commission should ensure that all ISPs are able to offer their competitive information services via the discounted telecommunications service.

In this way, the schools benefit from the discount on telecommunications service, and the benefit of choosing from a host of competitive prices and services offered from the full range of Internet access providers, both carrier-based and non-carrier-based. Non-carrier-based ISPs also benefit with the opportunity to compete for customers in the schools and libraries market, and the telecommunications carrier is able to obtain USF support for the provision of the underlying telecommunications service.

Cost-Based and Fair Reform of Subscriber Line Charge Caps

As end-users of the PSTN, Internet providers accept that they must pay a reasonable portion of the costs to support local exchange services. Proposed increases to the multi-line business and second-line residential SLC caps will significantly impact Internet providers, and must only be implemented if such increases are cost-justified. However, cost-based increases to the SLC caps may be reasonable as the Commission takes on the complex task of reforming the access charge regime.

Moreover, broad-based access charges applied to all end-users, such as the SLC, are more tolerable than access charges that are specifically targeted at the Internet access industry or data users. Thus, a virtual-channel SLC charge (which would inhibit deployment of ISDN service) and usage-based Internet charges for access to the PSTN are not reasonable and unfairly allocate local exchange costs on ISPs and Internet users.